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Chairman Mica, Ranking Member DeFazio, and other distinguished members of the Subcommittee, thank you for inviting me to testify regarding the status of the private screening pilot program. The timing of this hearing is especially appropriate because of the recent completion of the independent study we commissioned to provide a performance evaluation of the so-called "PP5" airports and to compare that performance to Federal screening effectiveness. While there are some inherent challenges arising from the limited size of the PP5 program, I am pleased to inform the Subcommittee that the report found that the private screening pilot airports performed at essentially the same level as Federally screened airports. Overall, we believe the report confirms that TSA has been successful in administering the PP5 program and in overseeing security operations at the five participating airports. We look forward to applying the insights detailed within the report and the lessons learned from the pilot program as we consider guidance and procedures for airports to opt out of Federal screening.

Selection of the Airport Participants and Contractors

Under the Aviation and Transportation Security Act (P.L. 107-71), TSA was required to establish a pilot program for screening of passengers and property at up to five airports by qualified private screening companies under contracts entered into with TSA. The Act required that the program begin on November 19, 2002, and that each of the airports selected for participation be from different security risk categories. Furthermore, the Act established minimum standards with respect to pay and benefits for screeners employed by the private contract screening companies and required that the companies be owned and controlled by U.S. citizens.

Overall, TSA received a total of 19 applications to participate in the program. These included two Category X, four Category I, three Category II, five Category III and five Category IV airports. TSA reviewed the applications and were guided by the following 11 considerations in determining which airports would be selected:

1. Number of screening checkpoints
2. Configuration of current screening checkpoints
3. Willingness to modify checkpoint configuration
4. Geographically balanced representation across the U.S.

5. Proximity to other airports with Federal screeners
6. Number of screeners
7. Willingness to share costs or discuss cost sharing
8. Areas with variable costs of living
9. Availability of existing screening company resources
10. Local and Federal law enforcement availability to the airport
11. Diverse passenger mix

Following the review based on the above criteria and the requirement under ATSA that TSA select no more than one airport in each of the five different security risk categories, TSA selected the following airports for participation:

1. Category X: San Francisco International Airport (SFO)
2. Category I: Kansas City International Airport (MCI)
3. Category II: Greater Rochester International Airport (ROC)
4. Category III: Jackson Hole Airport (JAC)
5. Category IV: Tupelo Regional Airport (TUP)

After selecting these airports, TSA issued requests for proposals to solicit bids to provide contract screening services at the five pilot airports. TSA evaluated the applicants' qualifications and awarded contracts to Covenant Aviation Security, LLC at SFO and TUP; FirstLine Transportation Security, Inc. at MCO; McNeil Security, Inc. at ROC; and Jackson Hole Airport Board at JAC. The contract costs for the second year of operation of all five airports under the four contracts is approximately \$133 million in the aggregate. All contracts entered with the companies were cost-plus-award-fee contracts in order to maximize flexibility with respect to contract scope and to minimize risk to contractors, while providing incentives to the companies to perform strongly. In addition to the basic contracts, the four contractors were also eligible for \$15.9 million in incentive award fees.

Differences between PP5 Contract Screening and Pre-9/11 Contract Screening

It is important to emphasize that the contract screening program put in place by TSA after ATSA was enacted is vastly different from the contract screening system which was in place prior to the September 11 attacks. The previous program was a purely private sector model, with Federal regulatory oversight by the Federal Aviation Administration (FAA). In contrast, the PP5 Program is a hybrid government/private model in which the private sector must not only comply with strict minimum standards established in the aftermath of the September 11 attacks, and where the Federal government is directly involved with the day-to-day administration of the PP5 contracts. Whereas prior to September 11, the Federal government (FAA) exercised indirect regulatory oversight over the airlines' security operations, TSA has direct operational authority over security activities at all of the nation's airports, including security activities conducted by private contractors and their employees at the PP5 airports.

Prior to the federalization of security at the Nation's airports, airlines generally contracted with private companies to provide passenger and baggage screening. Criticism was directed at this structure following the September 11 attacks over the aptitude, morale, and professionalism of the screener workforce. Often, these screeners received inadequate training. Morale was also often low because of poor working conditions and low pay and benefits.

Under the PP5 Program, TSA requires that the private screening companies and their employees follow heightened security standards that were instituted throughout the Nation's airports following the September 11 attacks and the enactment of ATSA. The companies must perform at the same level as Federal screeners and comply with Federal passenger and baggage screening standard operating procedures. Furthermore, ATSA requires that the screeners must meet the same strict hiring and training qualifications applicable to Federal screeners. Finally, private screeners' compensation is higher than the remuneration and benefits provided to screeners by the airlines before September 11, as ATSA mandates that the private screeners' pay and benefits be no less than their Federal counterparts.

Most importantly, while the private contractors do provide management and supervisory staff oversight, screening activities are subject to supervision by TSA, as provided in ATSA. To oversee the day-to-day operations of the contractors, budgetary issues, and contract support, TSA established a Private Pilot Program Office that is responsible for ensuring that contractors perform screening services consistent with the requirements of airport security plans, security directives, and other applicable requirements. Operationally, the relationship between the Federal government and the private contractors ensures that security remains the primary focus because Federal Security Directors and their staff interact directly with the contract screeners in the performance of day-to-day operations. Again, this arrangement is in keeping with requirements in ATSA that Federal supervisors oversee all security at the PP5 airports.

Recruitment and Training of PP5 Screeners

Both TSA and the pilot program contractors drew from the same pool of candidates for the initial recruitment of screener applicants. TSA initially employed NCS Pearson Company to establish the assessment centers and test the screener applicants to determine their eligibility for employment.¹ NCS was required to comply with TSA criteria used to conduct assessments on applicants for Federal screener positions. Once determined eligible by NCS, pilot program contractors could then select their employees.

In the case of the airports where Covenant was selected as the contractor, Covenant conducted a pre-screening of potential employees, whereby the contractor required applicants to undergo a brief telephone interview, written exercise, panel interview, and visual acuity test to assess their suitability for the position and for the workforce culture

¹ TSA has since replaced NCS Pearson Company with Cooperative Personnel Services to administer assessment centers.

at the airport. The applicant would be referred to TSA's assessment process only if he/she passed the contractor's pre-screening.

ATSA requires that, at a minimum, all screeners complete 40 hours of classroom training and 60 hours of on-the-job training (OJT) before independently performing screening duties. For the initial training of screeners during roll-out, TSA hired Lockheed Martin to provide the training for passenger screening and hired Boeing-Siemens to provide the training for checked baggage screening.² The curriculum for private screeners is identical to that given to Federal screeners. Private contract screeners are also required to receive all recurrent training and to successfully undergo annual recertification.

Independent Evaluation of the Private Screener Pilot Program

In order to obtain an objective evaluation of the pilot program, TSA retained the services of BearingPoint and Abt Associates. Both firms are well recognized in their fields and brought together complementary strengths. BearingPoint is well versed in airport operations, data collection, and analysis. Abt Associates brings academic rigor and statistical modeling expertise. The two firms have a proven track record of providing thoughtful and informed evaluation services to both public and private sector clients.

It was clear to TSA leadership that identifying meaningful differences between airports utilizing private screeners and those employing federal screeners would be challenging. As all of you know, each of our Nation's airports are unique. Each has its own unique set of characteristics and security challenges. To evaluate the PP5 Program effectively, TSA needed to distinguish between differences resulting from the unique characteristics of each airport versus differences resulting from privatization of the screener workforce.

BearingPoint and Abt were charged with developing a sound evaluation structure, conducting the actual performance evaluation and comparison between private screening pilot airports and Federal screening airports, and developing a process to help TSA determine if a private screening company can provide a level of screening service and protection equal to or greater than that provided by Federal screeners. Along with the five pilot airports, the group evaluated data from all of TSA's airports and selected fifteen other federalized airports for in-depth comparisons. During these evaluations, the group conducted over 150 interviews with Federal Security Directors (FSDs), airport managers and staff, airline representatives, and others.

The BearingPoint/Abt evaluation measured performance in the three following general categories: security effectiveness, customer service and stakeholder impact, and cost to the government. In quantifying security effectiveness comparisons, the independent evaluation team used four criteria to measure screener effectiveness: (1) screener performance in covert testing conducted by TSA, the DHS Inspector General, and the General Accounting Office, (2) screener response to threatening images displayed by the

² Since May 2003, TSA has used Lockheed Martin to provide initial training for all screeners.

Threat Image Projection System, (3) the use of secondary searches conducted at boarding gates to assess the effectiveness of initial searches at some airports, and (4) screener performance on various re-certification tests. In conducting cost comparisons, the evaluation team determined how much TSA spent for screening operations at each of the five pilot airports (which included not only contract payments but also costs borne by TSA) and compared that with estimates on how much TSA would have spent had it actually conducted the screening operations at the PP5 airports. In evaluating customer service and stakeholder impact, the evaluation team compared survey data on passengers' expressed satisfaction with screening operations, complaints and compliments actually submitted by passengers, and passenger wait times.

With the recent completion of the "Private Screening Operations Performance Evaluation Report," BearingPoint and Abt have now achieved their three objectives. In general, the study found that the PP5 airports are meeting the standards required under ATSA. Specifically, the report's findings in the three critical areas are as follows:

- Security Effectiveness—The five PP5 airports performed at a comparable level to Federal airports.
- Costs—Costs at the five airports were not different in any statistically significant manner from the estimated cost of federally-conducted security operations at those airports.
- Customer service and stakeholder impact—Data indicated that customer satisfaction at the Category X and I airports was mixed. For the other airports, there was insufficient data to draw any conclusions. However, a qualitative survey of stakeholders revealed no difference between privately and Federally screened airports.

In addition to the findings regarding how the PP5 airports compare to Federal airports with respect to the three critical areas, the report tended to confirm TSA's findings from other contexts. For example, the report confirms that regardless of whether an airport's security functions are handled by the Federal government or by contractors, strong FSD management is a key factor that drives screener performance. Partly as a result of the report, TSA is reinstituting the FSD orientation program for newly appointed Federal Security Directors. The program will involve assigning each new FSD a mentor to provide guidance and support to new FSDs as they adapt to their new positions and environment. The report also confirms TSA's policy of providing additional flexibility in recruiting, hiring, assessment and training to the FSDs, who themselves often find creative and effective notions on how to improve security, manage operations efficiently, and control costs. TSA is already moving to provide more direct involvement in the recruiting, assessment, hiring and training processes by inviting FSDs to help design the recruitment plan, participate in the structured interview of the candidates at Phase II, make hiring decisions, and conduct the swearing in ceremony and organizational briefing for new hires. This month, we also started training TSA staff at airports as instructors to teach the basic passenger and baggage screener course and to provide cross training. This program includes the PP5 airports.

The study also revealed program improvements that can be made to the PP5 program itself, including allowing local FSDs greater involvement in the assessment process, allowing contractors to administer initial basic training, providing portability of screeners' certification, and increasing the authority of PP5 program office. We are considering these and other measures, and hope that the remaining seven months of the pilot program will reveal additional considerations we should factor as we proceed with development of the ATSA authorized private screening opt-out program. TSA regards administration of both the PP5 program and the opt-out program as a continual, seamless process whereby TSA operates, evaluates, and innovates. TSA will seek to incorporate lessons learned thus far, apply them to the future conduct of the PP5 program and the design of the opt-out program, and then further incorporate lessons learned from future activities at airports utilizing private contract screening.

TSA's Administration of the Pilot Program

TSA recognizes that some interested stakeholders, especially the contractors who will be testifying on today's second panel, have urged TSA to provide them with additional flexibilities in administering screening operations at the pilot airports. In particular, contractors have indicated that they require flexibility in recruiting, hiring, staffing, and training screeners. TSA appreciates the concerns expressed by PP5 contractors and welcomes a continuing dialogue with regard to their ideas on how to provide additional flexibility, within the confines of security requirements and the law.

TSA acknowledges that it has managed the PP5 program conservatively with regard to flexibilities. However, to place this in proper context, TSA initiated the PP5 program at the same time it was standing up the organization to ensure the nation's confidence in the security of our civil aviation system. It was entirely appropriate for TSA to take utmost care to ensure that security was being met at all of the nation's airports, including the PP5 airports, and do so through application of consistent requirements across all U.S. airports.

Now that we are well past standing up the organization and implementing the high standards that Congress and the American people expected, we are now in better a position to explore additional flexibilities. PP5 contractors were asked by TSA to submit proposals detailing how they would conduct the initial assessment and hiring process and whether the changes they would implement would result in a more cost efficient and effective process. TSA received technical proposals in March, and an evaluation board is currently reviewing the submissions. TSA believes that additional flexibilities will be possible, including the provision of greater discretion and authority to conduct hiring and training at the local level, as opposed to the current practice of largely managing these functions centrally.

At an airport-specific level, one example of flexibility is TSA's approval of the idea conceived by Covenant Aviation Services to implement and test the concept of using baggage handlers to perform non-screening functions in lieu of baggage screeners at SFO. The idea anticipates that the use of such baggage handlers will result in cost savings without any deterioration in security because baggage handlers are not required

to meet the same assessment standards applicable to screeners, undergo the same training regimen that passenger and baggage screeners must undergo, and are compensated at lower levels. This redirection of support resources will allow screeners to focus on their core mission. TSA is now monitoring the implementation of this idea to ascertain whether it is effective and whether it can feasibly be duplicated at other airports. TSA would also welcome other ideas from contractors on how to address differences in airport profiles, passenger mix, and airport terminal configurations, which result in unique challenges in conducting security operations effectively, efficiently, and in a customer-friendly manner at any given locale.

Moreover, we should not overlook the significant flexibilities that the contractors have possessed under the program. For example, they have significant discretion in operational and management decisions, including in the areas of supervision, overhead, materials, recruiting, compliance, and scheduling, and have implemented these flexibilities within their operations. Also, since the inception of the PP5 program, the contract screening companies have possessed the flexibility to differentiate from TSA in the design and delivery of recurrent training.

Moving forward with Implementation of ATSA's "Opt-out" Provisions

A primary purpose for conducting the private screening pilot was to lay the predicate for airports to opt out of Federal security screening. ATSA provides that on or after November 19, 2004, airports may submit applications to TSA to have the screening of passengers and property carried out by qualified private screening companies under contract to TSA. ATSA also provides that opt-out applications can only be approved if TSA certifies that the level of screening protection at opt-out airports is equal to or greater than the level that would be provided at airports utilizing Federal screening personnel.

The results of the BearingPoint/Abt study indicate that while additional study, analysis, and refinement will be required, TSA would not be foreclosed from making such certification at the appropriate time from a security standpoint. The Bearing Point/Abt study will help TSA identify performance baselines for measuring potential opt-out applications and constitutes a key element in our plan to continually operate, evaluate, and innovate in the area of private contract screening. We will digest and incorporate the lessons learned from the report while actively seeking further insights in the remaining months of the PP5 program, and we plan to conduct similar evaluations of both opt-out and federal airports after November 19, 2004. TSA looks at this evaluation as a starting point. The statistical analysis and data collection efforts provided by BearingPoint and Abt will serve as an initial baseline from which TSA hopes to employ the same evaluation rigor and depth in future measurements of the performance of all of our Nation's airports, whether private or federal. Similarly, TSA will take into account any findings and recommendations that the DHS OIG and GAO will make based on reviews of the PP5 program.

As we move forward on developing the ATSA authorized opt-out program, security of the aviation system is and will always be our overriding concern. TSA is in the early stages of developing an efficient, understandable, and effective procedure for opt-out applications and is currently drafting the specific contents of the opt-out guidance. The preparations for opt-out focus on three areas. The first involves general determinations regarding how the opt-out program would be structured and managed. Important issues such as reimbursement and indemnification to contractors need to be considered in this context, and we are working to address these issues. In this regard, in conjunction with the Department of Homeland Security, we are evaluating the applicability of the SAFETY Act to screening services provided by private screening companies under contract with TSA. The second area is the application and award process, in which TSA will consider how many airports might apply for the program, how screener contracts will be awarded, and the timing of applications and awards. The third area involves delineating clear roles and authority for TSA headquarters, the FSDs and their staff, and the airports and contractors in order to provide clear guidance on managing effectively screening operations at opt-out airports. We are taking appropriate steps to ensure that, should any airport choose to opt out of Federal screening, the process will be in place to give careful consideration of any applications submitted. TSA is currently on schedule to meet a self-imposed deadline for providing guidance to the airports in order to aid the decision on whether or not to opt out. Finally, we must be attentive in identifying any impacts on the integrity and effectiveness of security in the civil aviation system as a whole that might arise as a result of allowing some airports to opt out of federal screening.

In our consideration of opt out applications, we will exercise care and diligence in evaluating each application on its merits to ensure that security at opt-out airports will meet or exceed the performance at airports with Federal screening. TSA will proceed thoughtfully and methodically and will tailor any opt out approval to the unique conditions that exist at any given airport, to ensure that there is no degradation in any critical area. We will also give careful consideration to mechanisms to minimize contract costs. As I mentioned earlier, the PP5 contracts were cost-plus-award-fee contracts in order to minimize risks relating to the contract scope. As is typical in any acquisition program, the contractor risk will decrease with greater experience, as product or service requirements can be defined more clearly. We now have a clearer understanding of what the contractors' responsibilities would be in the opt-out phase and believe that it would be appropriate during that phase to consider alternative contract types that would provide even greater incentive to the contractors to manage their screening operations effectively and efficiently and place the appropriate level of cost risk on the contractor.

We are keenly aware of the significant challenges relating to transition at any airport that applies for and is approved to opt out of Federal screening and will take appropriate steps to ensure that we communicate effectively with the current screening workforce, who have done a tremendous job of protecting our aviation system, and with airport and airline stakeholders. One option that TSA would consider to ensure a smooth transition and no lapse in security would be to provide Federal screeners at affected airports with the right of first refusal for screener positions at contract screening companies. Our goal

will be, first and foremost, making sure that any transition does not lead to degradation of security during the initial months of the opt-out.

Chairman Mica, Rep. DeFazio, and other distinguished Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions at this time.